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**THE INFLUENCE OF DEMOGRAPHIC FACTORS, TAX KNOWLEDGE AND  
TAX ETHICS ON TAX COMPLIANCE AMONG SALARIED TAXPAYERS IN  
SEREMBAN**



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In Partial Fulfilment of the Requirement for the  
Master of Science (International Accounting)**



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## ABSTRACT

Convincing taxpayers to comply with the tax regulations has been the main challenge of Malaysia authority. Even though tax is one of important revenue source in Malaysia, tax collection has been decreased in year 2016 compared to year 2015. Tax component from employment is the second largest contributor to Government tax revenue. The main purpose of this study is to examine the effect of demographic factors (gender, age, education background, income level and ethnicity diversity), tax knowledge and tax ethics on individual salaried taxpayer by using survey method towards tax compliance behaviour in Malaysia. A total of 500 questionnaires were distributed among Seremban taxpayers during Hasil4U programme 2016 (March – April 2016) in Inland Revenue Board of Malaysia (IRBM) Seremban Branch. Age group, tax knowledge and ethics have positive relationship with level of tax compliance behaviour among individual taxpayers in Seremban; whilst, gender, education level, income level and ethnicity affect tax compliance behaviour negatively. Overall, the findings in this paper are supported by other studies in literatures.

**Keywords:** tax compliance, tax, employment, individual



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## ABSTRAK

Meyakinkan pembayar cukai untuk mematuhi peraturan cukai telah menjadi cabaran utama bagi pihak berkuasa Malaysia. Walaupun cukai merupakan sumber utama pendapatan Malaysia, pungutan cukai telah menyusut pada tahun 2016 berbanding 2015. Komponen tax daripada penggajian merupakan penyumbang kedua terbesar kepada hasil cukai Kerajaan. Tujuan utama kajian ini adalah untuk melihat kesan faktor demografik (jantina, umur, latar belakang pendidikan, tahap pendapatan, kepelbagaian etnik), pengetahuan berkaitan cukai, dan etika cukai pembayar cukai bergaji individu dengan menggunakan kaedah kajiselidik terhadap tingkahlaku kepatuhan di Malaysia. Sejumlah 500 borang soal selidik telah diagihkan di kalangan pembayar cukai di Seremban ketika minggu Hasil4U 2016 (Mac – April 2016) di cawangan Lembaga Hasil Dalam Negeri (LHDN) Cawangan Seremban. Kumpulan umur, pengetahuan cukai dan faktor etika mempunyai hubungan positif terhadap tahap kepatuhan cukai di kalangan individu pembayar cukai di Seremban, sebaliknya faktor jantina, tahap pendidikan, tahap pendapatan dan etnik memberi kesan negative. Secara keseluruhan, hasil daripada kertas kerja ini disokong oleh kajian literasi daripada kajian lain.

**Kata Kunci:** pematuhan cukai, cukai, penggajian, individu



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## LIST OF ABBREVIATIONS

IRBM	:	Inland Revenue Board of Malaysia
OECD	:	The Organisation for Economic Co-operation and Development
UK	:	United Kingdom
RPGT	:	Real Property Gains Tax
MTD	:	Monthly Tax Deductions
SAS	:	Self-Assessment System
CMS	:	Case Management System
ITRF	:	Income Tax Return Form
ANOVA	:	Analysis of Variance

## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Taxation is one of the main source of revenue to the government to achieve economic and social objectives, and also for redistributing the resources. Lymer and Oats (2009) stated that taxation is one of the important fundamentals in every country principally in developed countries. Taxation has played significant part since thousand years ago in supporting each country development. Tax is also defined by Lymer and Oats (2009) as an unavoidable tax that levied by tax authority on revenue, spending or investments for which no specific returns received by the taxpayers.

In Malaysia, three general categories for Federal Government's revenue classified as Non-Tax Revenue, Tax Revenue and Revenue from Federal Territories. Direct Tax Revenue and Indirect Tax Revenue categorized under Tax Revenue. Direct General of Inland Revenue ministered direct taxation whilst indirect taxation is under responsibility of Direct General of the Royal Customs and Excise Department.

The 2016 tax revenue is amounted at RM169,343 million or represent 79.72 percent of total Federal Government revenue which the largest component was direct tax, contributing 64.73 percent to total tax revenue (Ministry of Finance, 2016). Table 1.1 below describes the source of Federal Government revenues in Malaysia.

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## **APPENDICES**

## Appendix A: Questionnaire



### COLLEGE OF BUSINESS QUESTIONNAIRE

<p><b>The Influences of Demographic Factors, Tax Knowledge and Tax Ethics on Tax Compliance among Salaried Taxpayers in Seremban</b></p>
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Dear participant,

I am a postgraduate student from Universiti Utara Malaysia (UUM) and currently conducting a project paper for my Master of Science (International Accounting). I would like to invite you to participate in this survey 'The Influences of Demographic Factors, Tax Knowledge and Tax Ethics on Tax Compliance among Salaried Taxpayers in Seremban'. There are 4 sections in this questionnaire which will take approximately 10 minutes to be completed.

Your participation in this survey is completely anonymous. Your responses will be strictly kept confidential and data collected from this survey will be reported for academic purpose only. Your participation in this survey is highly appreciated.

Your input is highly valued. Thank you very much for your time and cooperation.

Yours sincerely,

Azlina binti Ismail (819503)  
Candidate for Master of Science (International Accounting)  
Universiti Utara Malaysia  
012-2042456  
inna.eight@gmail.com



**SECTION A: RESPONDENT PROFILE**  
**BAHAGIAN A: PROFIL RESPONDEN**

Please Tick (✓) in the box provided.  
*Sila tandakan (✓) di dalam kotak yang disediakan.*

1. Sex / *Jantina*

- ☐ Male/ *Lelaki*
- ☐ Female / *Perempuan*

2. Ethnicity/Bangsa

- ☐ Malay / *Melayu*
- ☐ Chinese / *Cina*
- ☐ Indian / *India*
- ☐ Others / *Lain-lain* : \_\_\_\_\_

3. Age / *Umur*

- ☐ 20-30 years / *Tahun*
- ☐ 31 – 40 years / *Tahun*
- ☐ 41 years and above / *Tahun dan ke atas*

4. Marital Status / *Taraf Perkahwinan*

- ☐ Single / *Bujang*
- ☐ Married / *Kahwin*
- ☐ Others / *Lain-lain*: \_\_\_\_\_

5. Academic Qualification/ Kelayakan Akademik

- ☐ PhD / *DoktorFalsafah*
- ☐ Master Degree / *Sarjana*
- ☐ Bachelor Degree / *Sarjana Muda*
- ☐ Others / *Lain-lain* : \_\_\_\_\_

6. Who is your current employer?

- ☐ Government / *Kakitangan Kerajaan*
- ☐ Private/ *Swasta*

7. Income / *Pendapatan*

- ☐ RM 3,500.00 - RM 5,000.00
- ☐ RM 5,001.00 - RM 6,500.00
- ☐ RM 6,501.00 - RM 8,000.00
- ☐ RM 8,001.00 – RM9,500.00
- ☐ RM 9,501.00 and above / *ke atas*

## SECTION B – TAX KNOWLEDGE

This section consists of **Part B1** to **Part B6**. Please read each statement carefully and tick (✓) according to your knowledge.

*Bahagian ini mengandungi Bahagian B1 hingga B6. Sila baca dengan teliti dan tanda (✓) berdasarkan pengetahuan anda.*

### **PART B 1-(TAXPAYER GENERAL RESPONSIBILITIES AND RIGHTS) / (TANGGUNGJAWAB DAN HAK PEMBAYAR CUKAI)**

The following are my responsibilities and rights as taxpayers / *Berikut adalah tanggungjawab dan hak saya sebagai pembayar cukai:*

		Yes/Ya	No/Tidak	Not Sure / Tidak Pasti
1	To inform and declare actual income received from all sources to the IRB / <i>Memaklumkan dan melaporkan semua pendapatan sebenar yang diterima dari pelbagai sumber kepada LHDNM</i>			
2	To keep records/documents pertaining to income and expenditure for a period of seven years after submission of the Tax Return / <i>Menyimpan rekod dan dokumen yang berkaitan dengan pendapatan dan perbelanjaan dalam tempoh 7 tahun selepas penghantaran Borang Nyata Cukai Pendapatan</i>			
3	To pay taxes due within 30 days from the date of issue of the Notice of Assessment or within the stipulated period / <i>Membayar cukai kena dibayar dalam tempoh 30 hari dari tarikh Notis Taksiran dibangkitkan atau dalam tempoh yang telah ditetapkan</i>			

### **PART B 2 - (TYPES OF INCOME) / (JENIS PENDAPATAN)**

#### **1. EMPLOYMENT INCOME / PENDAPATAN PENGGAJIAN**

The following income **MUST BE INCLUDED** in taxable income / *Berikut adalah pendapatan yang PERLU DIAMBILKIRA di dalam pendapatan bercukai:*

		Yes/Ya	No / Tidak	Not Sure/ Tidak Pasti
4	Basic salaries / <i>Gaji asas</i>			

5	Leave pay / <i>Gaji cuti</i>			
6	Commission / <i>Komisen</i>			
7	Allowance or perquisite whether in cash or otherwise / <i>Elaun atau perkuisit dalam bentuk tunai atau dalam bentuk barangan yang boleh ditukar kepada wang</i>			
8	Living accommodation provided by employer / <i>Manfaat tempat kediaman yang disediakan oleh majikan</i>			

**PART B 3 - (RELIEF) / (PELEPASAN)**

In this part you are requested to answer the questions / *Di dalam bahagian anda diminta menjawab soalan – soalan berikut:-*

		Yes/ Ya	No/Tidak	Not Sure/Tidak Pasti
9	Personal relief is granted automatically / <i>Pelepasan diri diberi secara automatic</i>			
10	Medical expenses for parents limited to RM5,000 / <i>Perbelanjaan rawatan perubatan ibubapa terhad kepada RM5,000</i>			
11	Purchase of books, journals and magazines including newspaper limited to RM1,000 / <i>Pembelian buku, jurnal dan majalah termasuk suratkhbar terhad kepada RM1,000</i>			
12	Child relief under 18 years old is RM2,000 / <i>Pelepasan anak dibawah 18 tahun adalah RM2,000</i>			
13	Restricted for six child only/ <i>Terhad kepada 6 orang anak sahaja</i>			

**PART B 4 - (OFFENCES, PENALTY AND COMPOUND) / (DENDA, PENALTI DAN KOMPAUN)**

		Yes/Ya	No/Tidak	Not Sure/Tidak Pasti
14	Failure (without reasonable excuse) to furnish an Income Tax Return Form – Amount of Fine is RM200 to RM2,000 or imprisonment or both / <i>Tidak mengembalikan Borang Nyata Cukai Pendapatan – Jumlah denda</i>			

	<i>adalah RM200 hingga RM2,000 atau penjara atau kedua-duanya sekali</i>			
15	Failure (without reasonable excuse) to give notice of chargeability to tax - Amount of Fine is RM200 to RM2,000 or imprisonment or both / <i>Tidak memaklumkan layak dikenakan cukai – Jumlah denda adalah RM200 hingga RM2,000 atau penjara atau kedua-duanya sekali</i>			
16	Make an incorrect tax return by omitting or understating any income – Amount of Fine is RM1,000 to RM10,000 and 200% of tax undercharged / <i>Tidak melaporkan pendapatan sebenar di dalam Borang Nyata Cukai Pendapatan – Jumlah denda adalah RM1,000 hingga RM10,000 atau penjara atau kedua-duanya sekali</i>			

### SECTION C – TAX COMPLIANCE / PEMATUHAN CUKAI

Please state your opinion for each given statements using the following scales (**Please Circle**) / *Sila nyatakan pendapat anda untuk setiap pernyataan dibawah berdasarkan skala dibawah (**Bulatkan**)*:

- |  |
|--|
| 1 Strongly Disagree / <i>Amat tidak bersetuju</i><br>2 Disagree / <i>Tidak bersetuju</i><br>3 Not Certain / <i>Tidak pasti</i><br>4 Agree / <i>Setuju</i><br>5 Strongly Agree / <i>Amat Setuju</i> |
|--|

17	Serious enforcement and penalty by the IRB may result myself to comply / <i>Penguatkuasaan yang serius dan penalti yang dikenakan oleh LHDNM akan membuatkan saya lebih patuh</i>	1	2	3	4	5
18	Because IRB is efficient in its dealings with taxpayer correspondence I shall comply / <i>Disebabkan LHDNM cekap dalam berurusan dengan pembayar cukai maka saya harus patuh</i>	1	2	3	4	5
19	I will submit my tax return according to due date every year / <i>Saya akan mengemukakan Borang Nyata Cukai Pendapatan dalam tempoh yang ditetapkan setiap tahun</i>	1	2	3	4	5

20	I will ensure the information in my tax return is correct / <i>Saya akan pastikan maklumat di dalam Borang Nyata Cukai Pendapatan dengan betul</i>	1	2	3	4	5
21	I will pay my income tax when is due / <i>Saya akan membayar cukai pendapatan saya dalam tempoh yang ditetapkan</i>	1	2	3	4	5

#### SECTION D – ETHICS / ETIKA

22	I would feel guilty if I excluded some of my income when completing my tax return / <i>Saya rasa bersalah sekiranya saya tidak melaporkan sebahagian daripada pendapatan semasa mengemukakan Borang Nyata Pendapatan saya</i>	1	2	3	4	5
23	Since the supporting documents do not need to be sent to the IRB, I won't manipulate the figure in the tax return / <i>Oleh kerana dokumen sokongan tidak perlu dikemukakan kepada LHDNM, saya tidak akan memanipulasi angka di dalam Borang Nyata Cukai Pendapatan</i>	1	2	3	4	5
24	I do think it is ethically wrong if I excludes small amount of income when completing the tax return / <i>Saya berpendapat adalah tidak beretika jika saya mengeluarkan sedikit amaun pendapatan semasa mengemukakan Borang Nyata Cukai Pendapatan saya.</i>	1	2	3	4	5
25	I think it is wrong claiming personal relief without supporting documents / <i>Saya berpendapat adalah tidak beretika jika menuntut pelepasan cukai tanpa dokumen sokongan</i>	1	2	3	4	5
26	It is unethical to include false information in the tax return / <i>Adalah tidak beretika jika memasukkan maklumat yang salah di dalam Borang Nyata Cukai Pendapatan</i>	1	2	3	4	5

- **END OF QUESTIONNAIRE / SOAL SELIDIK TAMAT –**  
**- THANK YOU / TERIMA KASIH-**

## Appendix B: SPSS Results

Gender		
N	Valid	338
	Missing	162

Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	216	43.2	63.9	63.9
	Female	122	24.4	36.1	100.0
	Total	338	67.6	100.0	

Group Statistics					
	Gender	N	Mean	Std. Deviation	Std. Error Mean
Tax Compliance	Male	216	3.6676	.82905	.05641
	Female	122	3.7869	.78571	.07114

Ethnicity		
N	Valid	338
	Missing	162

Ethnicity					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Malay	236	47.2	69.8	69.8
	Chinese	67	13.4	19.8	89.6
	Indian	30	6.0	8.9	98.5
	Others	5	1.0	1.5	100.0
	Total	338	67.6	100	

Age		
N	Valid	338
	Missing	162

Age					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-30 years	80	16.0	23.7	23.7
	31-40 years	79	15.8	23.4	47.0
	41 years and above	179	35.8	53.0	100.0
	Total	338	67.6	100.0	

Descriptive					
		N	Mean	Std. Deviation	Std. Error
20-30 years		80	3.5075	.71437	.07987
31-40 years		79	3.7190	.73834	.08307
41 years and above		179	3.7978	.87435	.06535
Total		338	3.7107	.81452	.04430
Model	Fixed Effects			.80838	.04397
	Random Effects				.09119

ANOVA					
Tax Compliance					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4.666	2	2.333	3.570	.029
Within Groups	218.916	335	.653		
Total	223.582	337			

Marital Status		
N	Valid	338
	Missing	162

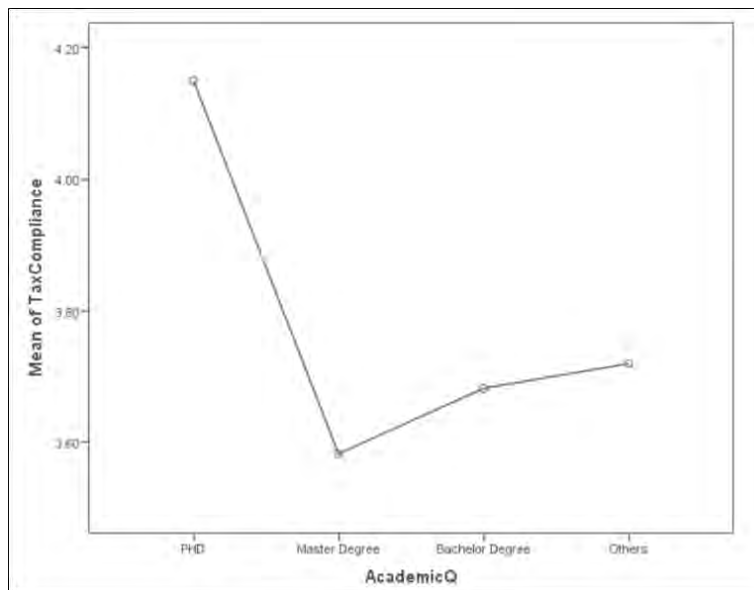
Marital Status					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	59	11.8	17.5	17.5
	Married	268	53.6	79.3	96.7
	Others	11	2.2	3.3	100.0
	Total	338	67.6	100.0	

Academic Q		
N	Valid	338
	Missing	162

Academic Q					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	PHD	4	.8	1.2	1.2
	Master Degree	11	2.2	3.3	4.4
	Bachelor Degree	81	16.2	24.0	28.4
	Others	242	48.4	71.6	100.0
	Total	338	67.6	100.0	

Descriptive					
		N	Mean	Std. Deviation	Std. Error
PHD		4	4.1500	.19149	.09574
Master Degree		11	3.5818	.69544	.20968
Bachelor Degree		81	3.6815	.78344	.08705
Others		242	3.7190	.83615	.05375
Total		338	3.7107	.81452	.04430
Model	Fixed Effects			.81627	.04440
	Random Effects				.04440 <sup>a</sup>





Employer		
N	Valid	338
	Missing	162

Employer					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Government	127	25.4	37.6	37.6
	Private	211	42.2	62.4	100.0
	Total	338	67.6	100.0	

Income		
N	Valid	338
	Missing	162

Income					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	RM3500-RM5000	251	50.2	74.3	74.3
	RM5001-RM6500	52	10.4	15.4	89.6
	RM6501-RM8000	17	3.4	5.0	94.7
	RM8001-RM9500	11	2.2	3.3	97.9
	RM9501 and above	7	1.4	2.1	100.0
	Total	338	67.6	100.0	

Descriptive				
	N	Mean	Std Error	Std. Error
RM3500-RM5000	251	3.6861	.79554	.05021
RM5001-RM6500	52	3.7923	.75351	.10449
RM6501-RM8000	17	3.8235	.99218	.24064
RM8001-RM9500	11	3.4182	1.21146	.36527
RM9501 and above	7	4.1714	.68730	.25977
Total	338	3.7107	.81452	.04430
Model	Fixed Effects		.81362	.04426
	Random Effects			.06302

ANOVA					
TaxCompliance					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3.142	4	.786	1.187	.316
Within Groups	220.439	333	.662		
Total	223.582	337			

### CORRELATIONS

Correlations							
		Gender	Ethnicity	Age	Academic Q	Income	Tax Compliance
Gender	Pearson Correlation	1	0.006	0.017	-.179**	0.027	0.07
	Sig. (2-tailed)		0.906	0.757	0.001	0.617	0.196
	N	338	338	338	338	338	338
Ethnicity	Pearson Correlation	0.006	1	-.0068	0.057	-0.064	-.114*
	Sig. (2-tailed)	0.906		0.211	0.293	0.24	0.037
	N	338	338	338	338	338	338
Age	Pearson Correlation	0.017	-0.068	1	0.04	.254**	.140**
	Sig. (2-tailed)	0.757	0.211		0.464	0	0.01
	N	338	338	338	338	338	338
Academic Q	Pearson Correlation	-.179**	0.057	0.04	1	-.255**	0
	Sig. (2-tailed)	0.001	0.293	0.464		0	0.993
	N	338	338	338	338	338	338
Income	Pearson Correlation	0.027	-0.064	.254**	-.255**	1	0.046
	Sig. (2-tailed)	0.617	0.24	0	0		0.395
	N	338	338	338	338	338	338
Tax Compliance	Pearson Correlation	0.07	-.114*	.140**	0	0.046	1
	Sig. (2-tailed)	0.196	0.037	0.01	0.993	0.395	
	N	338	338	338	338	338	338
**. Correlation is significant at the 0.01 level (2-tailed).							
*. Correlation is significant at the 0.05 level (2-tailed).							

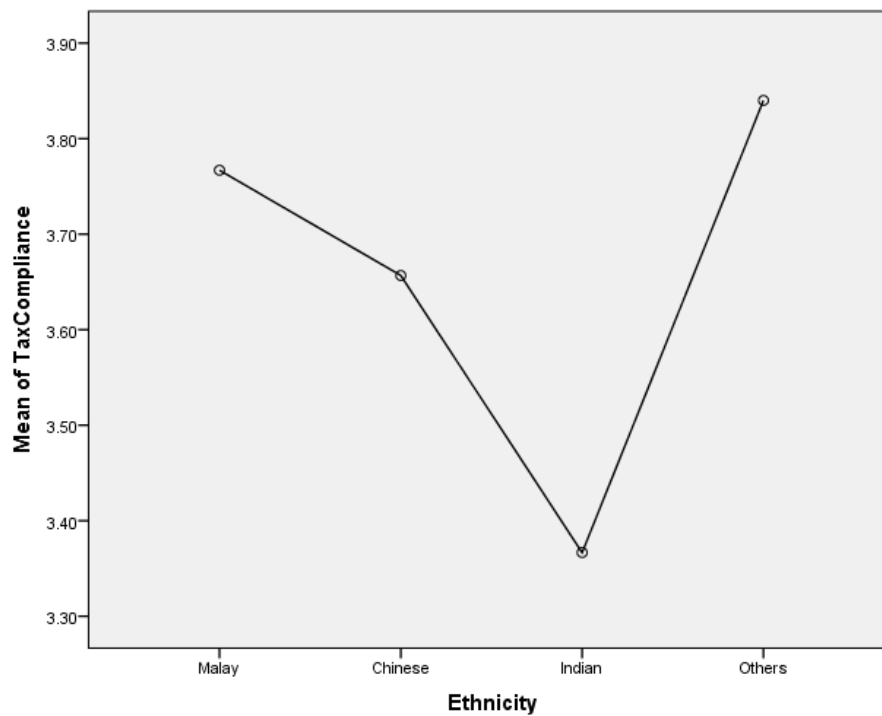
		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Min	Max
						Lower Bound	Upper Bound		
Malay		236	3.7669	.78524	.05111	3.6662	3.8677	1.00	5.00
Chinese		67	3.6567	.79909	.09762	3.4618	3.8516	1.00	5.00
Indian		30	3.3667	1.0346 <sub>9</sub>	.18891	2.9803	3.7530	1.00	4.60
Others		5	3.8400	.47749	.21354	3.2471	4.4329	3.00	4.20
Total		338	3.7107	.81452	.04430	3.6235	3.7978	1.00	5.00
Model	Fixed Effects			.80976	.04404	3.6240	3.7973		
	Random Effects				.10401	3.3796	4.0417		

ANOVA					
TaxCompliance					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4.576	3	1.525	2.326	.075
Within Groups	219.005	334	.656		
Total	223.582	337			

### Multiple Comparisons

Dependent Variable: Tax Compliance

	(I) Ethnicity	(J) Ethnicity	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Tukey HSD	Malay	Chinese	.11023	.11209	.759	-.1792	.3997
		Indian	.40028	.15696	.054	-.0050	.8055
		Others	-.07305	.36595	.997	-1.0179	.8718
	Chinese	Malay	-.11023	.11209	.759	-.3997	.1792
		Indian	.29005	.17789	.363	-.1693	.7494
		Others	-.18328	.37540	.962	-1.1526	.7860
	Indian	Malay	-.40028	.15696	.054	-.8055	.0050
		Chinese	-.29005	.17789	.363	-.7494	.1693
		Others	-.47333	.39115	.621	-1.4833	.5366
	Others	Malay	.07305	.36595	.997	-.8718	1.0179
		Chinese	.18328	.37540	.962	-.7860	1.1526
		Indian	.47333	.39115	.621	-.5366	1.4833



#### Correlations

		Tax Knowledge	Tax Compliance
Tax Knowledge	Pearson Correlation	1	-.140**
	Sig. (2-tailed)		.010
	N	338	338
Tax Compliance	Pearson Correlation	-.140**	1
	Sig. (2-tailed)	.010	
	N	338	338

\*\*. Correlation is significant at the 0.01 level (2-tailed).

#### Correlations

		Tax Compliance	Tax Ethics
Tax Compliance	Pearson Correlation	1	.710**
	Sig. (2-tailed)		.000
	N	338	338
Tax Ethics	Pearson Correlation	.710**	1
	Sig. (2-tailed)	.000	
	N	338	338

\*\*. Correlation is significant at the 0.01 level (2-tailed).